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Frye, Charles O.

A personal communication

[Charleroi, Pa.]

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A PERSONAL COMMUNICATION



308

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Box 364

1913

Letter of Explanation

Charleroi, Pa., July 8, 1913.

Dear Sir:—This article was prepared for local use on April 11, 1912, which was prior to the 1912 political conventions and has no political significance. It is now issued (unchanged) from the students standpoint for the purpose of gaining an exchange of ideas upon the problems contained in it. A letter from you or an exchange of pamphlets upon the subject would be highly appreciated. All correspondence will be treated as strictly confidential.

Information as to its difficulty of attainment is not desired, as I am only interested, at this time, in its theoretical merit, and am mailing copies to a limited and well selected list of persons whom I believe competent to so judge it.

Will you please favor me with your valuable advice?

Very respectfully

Charles O. Frye.

Our Business Should Be Established on a Firm Basis

*A Tentative Draft for Federal Regulation by Law
with Adequate Governmental Inspection*

Is it better to have business regulated by law under adequate government inspection rather than to have government control or ownership? This is a question this nation is facing and it is one that it must answer in the not distant future. It is only by deep thought and careful deliberation that we may hope to solve it rightly. Solution of our tariff and labor problems and remedies for our great social evils must of necessity wait until we have first placed business upon a sound basis, away from the disturbing influences of our ordinary elections and political activities. We must not only establish it by law but we must guard it by public opinion, by a sort of Monroe Doctrine. Then our national gambling houses—the stock exchanges, would be reduced to financial institutions for the exchange of business securities, sales being made upon known values under the sole influence of a healthy supply and demand market.

The George W. Perkins Plan.

In an article, entitled "Business and Government," in March 16th, 1912 number of the Saturday Evening Post, George W. Perkins, a man of Wall street circles, in part says: "If anybody wants to know what is the matter with business, why we are not so prosperous as we should be, why the country is torn asunder politically, let him contemplate what has happened and he will no

longer be filled with wonderment; but he will be filled with amazement that such colossal blundering can take place in such an enlightened country as ours is supposed to be.

Somebody in this country is making a colossal mistake. Somebody is woefully wrong. Is it the theoretical politician or the practical business man? Did our Federal Government make a mistake in adopting a policy of federal regulation with our banks and railroads, or is it making a mistake in enforcing ruthless competition among industrials?

Every day we hear it said we cannot hope to have our business problems seriously taken up by Congress, with the determination to straighten them out, until after the next presidential election. It is distinctly a crime to use as a pawn in the next presidential election a question so vitally effecting the very life of the nation. Must the prosperity of the country, the material welfare of our people, be held back for at least twelve months for the profit and advantage of politicians? Are the people of the United States going to stand for any such program as this? Have we been working since 1776 to build up a country of politics for politicians?

What the present situation needs is immediate constructive legislation; and such a program does not present insurmountable difficulties. Its solution would be comparatively easy and prompt if we could have a little more patriotism and a little less politics. If our legislative friends really want to stop playing politics for personal or party gain and do something of a constructive nature for the country they need but to follow precedents that are already established and that are well understood and approved by the people. No experiments on a large and doubtful scale are necessary."

Thus far I heartily agree with Mr. Perkins.

He then follows by advising Congress to create a commission for the control of business, with power to license corporations doing an interstate or international business. Said license to depend upon the ability of the corporation to comply with conditions laid down by Congress when creating the commission. Just what

these conditions should be he has failed to tell us, therefore I am unable to see wherein he has given our legislators any real or tangible advice upon which to build constructive legislation.

The Judge Gary and J. J. Hill Plans.

We are told that Judge Gary, the head of the United States Steel Corporation and other men of big business, believe the era of competition is passing and that the Government should control business by regulating the price of commodities. This plan has many of the weaknesses of socialism. Suffice it to cite only one: It would require the building up of the most colossal system of Bureaucracy ever attempted and the statistics required for its deliberations would be so voluminous and the object of their control so far removed from personal observation and intimate knowledge, as to place them beyond the power of Man's brain to intelligently digest. Their days of usefulness would have passed before they could be gathered, compiled and published.

James J. Hill, the great railroad magnate, well said: "When the Federal Government assumes control of business it will be a very short step until there is no Federal Government." And added that "Such a Government would not be a Republic but a Monarchy." Mr. Hill says, "Our Government should lay down the law of right and wrong. Should limit the power of corporations. Should see that every corporation that started a business should put all the money in, and it should not be jealous because of the size of the corporation, the government should not permit any watering of stock. The Government should see that one hundred cents in every dollar was put up and that the money was on hand to take care of it." This is approaching a sound and sensible program but I doubt whether Mr. Hill fully appreciated its true significance. To what extent he would limit the power of the corporation, and how he would prohibit it from watering its stock he did not say, for stock can be watered by exacting an exorbitant price from the consumer and keeping the price of labor too low. I wonder if Mr. Hill would limit the power of the corporation by limiting its divi-

dends, or in other words, would he be willing to extend the law of usury, to all business, allowing sufficient margin between the interest and dividend rate to encourage business, say a margin of 4 per cent? Ten per cent dividends would, when the business has reached a solid basis, with an amount of cash placed to surplus double its capital stock, to buy new machinery and replace old and wornout buildings with larger and modern ones, allow 100 per cent water and no more. for the conservative investor would be willing to pay double the par value to get such stock and be content with 5 per cent dividends.

How Most People Invest Their Money

Capital today is mostly going into bonds of old well established concerns. There is little investment in stock or even bonds of new concerns. These investments seldom net over from five to six per cent, which shows that the people are quite content with a limited return where their principal is safe. We are told that progress would be stifled and that we would have no new enterprises if we should take away the chance of extraordinary profits. Let us examine this carefully. Do extraordinary profits usually result where such inducements are held out by the promoter? I believe I am reliably informed that only one in fifteen hundred corporations formed to mine gold have ever paid dividends to the original stockholders, and a very large percentage of investors suffered a total loss of their capital. What would you think of a man who would place even money on a horse when the horse only had one in fifteen hundred chances to win the race? Our greatest leaders of finance realize that "Pionering doesn't pay" and that "new enterprises make themselves when they are needed." The loss to the general public through untimely and dishonest promotion is a close competitor to its loss by stock watering. Enough money goes out of most manufacturing towns every decade into various promotion schemes, which utterly fail, to double the producing capacity of one of their large manufacturing plants, thus robbing the community of its natural growth.

The Socialist Peril.

Let us view the possible havoc to business, to our government and to our very civilization should we as a people too long neglect the solution of our problem of chaotic and unjust business conditions. There is a deep unrest permeating every strata of our body politic and becoming manifest in the form of socialism, which is foreign to the spirit of our government and making its appearance by appealing to the worst passions and the most benighted prejudices of our people. The danger is real for it threatens to emasculate our priceless heritage, handed down to us by our immortal statesmen and dedicated to our enjoyment by the life-blood of untold patriots. It should be considered enough to cause every true American, every thinking man to stop, look and listen in order to avert possibly the greatest reign of terror ever recorded upon the pages of history.

Let us see if these fears are utterly unfounded by contemplating a possible event. Suppose in twelve years from now the enormous wealth now in the possession of a few people should almost double, that due to their position they controlled millions more belonging to the people, that lavish and riotous living should increase with their wealth, that a goodly portion of their wealth should fall into the hands of unscrupulous financial pirates, who, upon the eve of a business depression should withdraw their money from circulation and refuse their credit in order to squeeze other millions out of the people. Suppose they would indiscreetly carry their game too far and cause a panic which would extend utterly beyond their control and cause untold havoc to business and misery and unbearable want among the poorer people. On the other hand suppose our labor organizations should be permitted to become more highly centralized and adopt unjust coercive measures. Suppose that their government should fall into the hands of a band of "McNamaras," suppose that we should be on the eve of a national election, with a nation wide strike on our hands, in which many men, women and children lost their lives in a manner to cause intense bitterness. The worst passions of the people would be aroused, dire poverty would be

staring many in the face. Suppose under these conditions a Robespierre would be running for office of President on the socialist ticket, the result would be a foregone conclusion. Do you think after a triumphant election that they would hesitate to overturn the constitution, abolish our courts of justice and inaugurate a reign of terror throughout the land?

In 1908 Eugene V. Debbs, secured 418,758 votes upon a platform which demanded, in event of the success of their ticket, that the national government should loan money to the states, municipalities and school boards without interest so as to create work for the working man, and that the national government should contribute funds direct to labor organizations for the purpose of assisting their unemployed members. It demanded the free administration of justice and concluded by declaring "Such other measures of relief as we may be able to force from capitalism are but a preparation of the workers to seize the whole power of government, in order that they may thereby lay hold of the whole system of industry and thus come into their rightful inheritance." This doctrine is so erroneous and vicious, and so palpably so, that it staggers us to learn that instead of the error dying out it is growing apace throughout our land.

The Money Trust Peril.

Every step towards centralization of business or business control is a step farther away from that natural liberty which man enjoyed in his primitive state, when each was a law unto himself and depended solely upon his own hands to secure his daily bread and raiment. Yet with our dense population it has been truly observed. "Where there is no law there is no freedom, that laws are the just and necessary limits of our natural liberty and that political liberty, on the other hand, is that state in which the individual enjoys civil liberty with security, a security, it is wisely observed, as the experience of history shows, is only to be obtained by the force of public opinion."

Man throughout all ages has wisely guarded against every unnecessary infringement of his natural liberty.

Socialism proposes man's complete abdication of this sacred principle—the eradication of a universal instinct common to both man and beast. On the other hand control of unregulated business is falling into the hands of a small band of rich and powerful men and our natural liberty is being infringed in the opposite direction from that taken by our socialistic enemy.

We now have four standing committees of Congress commissioned to investigate the "money trust." Just what this trust is none of the committees have as yet disclosed to the public. The noted corporation lawyer, Samuel Untermyer, who speaks with inside knowledge says: "There is no money trust in a literal sense, but a money oligarchy behind which will be found a system, vicious and dangerous beyond conception, but one that is still within the law." The wall street Journal commenting upon the "money trust" says: "That it is but another name for John Pierpont Morgan," to quote: "The condition which has developed in Wall Street in the past fifteen years is to a considerable extent a personal one, and the authority which centers in the hands of Mr. Morgan, a man 75 years of age, is by no means something which can be passed down to his successors. Such men have no successors; and their work is either left undone after they are dead or the world devises other means or other work to take its place. There were no successors to Napoleon, Bismark, Cecil Rhodes or E. H. Harriman and their authority was not perpetuated."

Ever since the panic of 1907, which was attended by many circumstances which led me to suspect it was primarily caused by the withdrawal of currency from circulation by a coterie of rich and powerful men, I have realized the danger, and have thought we should guard against it by limiting the wealth of the individual to say \$10,000,000 for persons over 21 years of age and \$100,000 for persons under that age and prohibit persons of any age from inheriting or receiving by gift any sum or sums aggregating over \$1,000,000, and at the same time we should limit the power of the individual by limiting his control of business through serving on a large number of Boards of Directors. This could be done by limiting

the individual to the right to hold a directorate on only one Board of Directors of a given line of business and limiting his right to represent more than a given amount of capital in the aggregate.

It appears to me that as long as we allow the individual to possess unlimited wealth and get control of many corporations through that wealth, combined with the wealth of a few well selected business associates, our attempts to eliminate our business abuses by the Sherman anti-trust law will be more of a disturbing factor than a remedy.

Public Opinion Should Be Crystalized As to the Benefits of Sane Competition and the Evils and Waste As to Cut Throat Competition

Our laws governing competitive as well as all business should protect the employee and the consumer from excessive pressure from the stock holder by limiting the earning capacity of his capital. We should limit the size of corporations to the point of their greatest efficiency and we should not permit any one person, firm or corporation to control over one fifth of either the raw or finished product of any single commodity in order that we may easily ascertain their efficiency by comparison of prices, wages, dividends etc.

We should limit their size to the point where they are representative of their owners, the individual stockholders, the person whose personal interest should be such as to make him the safest man to be charged with its ultimate control. We should limit the size of the corporation to the point where its management comes into personal relation with the business and where the evils and abuses of bureaucracy are avoided. We should limit the size of the corporation so that its employees from the highest to the lowest have the opportunity to change their place of employment in order to advance their earning power under employers where their personal relations are most satisfactory. All persons, firms, and corporations should be encouraged—not hindered—in their effort to sell their product at a uniform price, they should be permitted to make any just arrangement with each

other which enables them to reach the ultimate consumer in the most economic and efficient manner.

Our Federal Government Should Regulate Business By Law Under Adequate Inspection.—A Tentative Plan.

All business whether controlled by individuals, firms or corporations, done on a working capital exceeding \$25,000.00 should be regulated by the Federal Government and the Federal Constitution should be so amended.

No person, firm or corporation should be allowed to control over one-fifth of any product raw or finished.

Every firm or corporation should be prohibited from selling preferred stock or issuing bonds. And they should only be permitted to issue such stock as sold for actual cash at or above its par value and all additional capital needed should be secured by sale of additional stock in the open market of all of its stock holders, in the same manner as is hereinafter provided for reorganization of business.

Every corporation doing a federal business should be restricted to 10 per cent annual dividends upon capital actually put into the business, dividends to be accumulative in event they cannot be met as they fall due, but never to exceed the rate of 10 per cent per annum.

No stock dividends or other gratuities whatever to be given the stock holders, and no rebates, bonuses or discounts of any kind or nature to be accepted by any officer or other person for his or their personal account. All such concessions to be taken for the sole benefit of the corporation.

A maximum salary scale for all officials, who have the power to fix the price of their services, should be established by law, and salary rebating should be made a criminal offense. Said salary scale should be graduated in accordance with the size of the corporation.

Each corporation should be allowed to place an amount to surplus not exceeding five times its capital stock. And in event of sale of corporate property or a division of it among its stockholders, all proceeds over an amount equal to double the capital stock to revert back to the peo-

ple from whom it was withheld to place its business upon a sound basis. That is, the people in this instance would of course mean the federal government. Sale or distribution to be made under federal regulation, so that the property would be disposed of at its proper value.

No person should be allowed to hold over one-fifth of the capital stock of any one corporation, and each Board of Directors should consist of at least five directors.

The use of proxies should be restricted to nominating the Board of Directors. Then each stock-holder should be restricted to voting by ballot for the two highest at the first contest, that is, if there were five to be elected, the ten who received the highest vote by proxy should be balloted for in a second contest and the five who receive the highest votes by ballot should be declared elected.

The non-office holding stock-holders should, in the same manner prescribed for the election of Directors, nominate and elect two Auditors and the Federal Government should appoint a third person at the expense of the corporation to work with them.

The Board of Directors should cause a complete annual report of its business to be published for the benefit of its stock-holders, together with such report as the auditors may see fit to make.

All persons and partnerships doing business upon a capital of \$25,000.00 or over should be required, under penalty of a prison sentence for each offense to secure a federal license, limiting their income to an amount equal to 10 per cent of capital invested and a maximum salary, where services are actually performed, equal to that allowed to officers in corporations of the same capitalization. All such persons and partnerships should be allowed to place funds to surplus in like manner as corporations and in event of surrender of license by death or otherwise all proceeds over double the amount of the capital to revert to the people, that is, the Federal Government.

If this or a similar plan of federal regulation with the same object in view, meets with the approval of any considerable portion of our people we should take sufficient time for thorough discussion, which our Constitution wisely provides to allow business to adjust itself to

the new conditions. While congress could pave the way by laying down, in the near future by specific enactment, many of its main principles of right and wrong, yet it would undoubtedly take an amendment to the constitution to carry it into full and satisfactory operation.

Plan submitted is but a modification of present laws by which we have attempted to regulate business for the benefit of the general public. A couple of illustrations.

Our Banks.

About the only change it would work upon our banking system would be to limit their dividends and surplus, so that they would either have to keep increasing their capital stock or pay a higher rate of interest to their depositors. In either event the general public would be benefited, for a larger capital stock and surplus would make the depositors more secure, and of course a larger rate of interest would always be acceptable. It is well to note in passing that our banks have been transformed from a national scandal, without regulation, to one of our soundest business institutions under federal regulation which is as yet imperfect.

Pennsylvania Public Service Corporations.

The municipalities of this commonwealth, by suits in equity, now have the power to compel water companies, enjoying monopolistic franchises to furnish water to their consumers at such rates as the courts may adjudge to be sufficient to net the company a reasonable return upon its actual investment, but every extensive improvement, as well as every material dropping off in revenue, sufficient to affect the income, justifies the company in raising its water rates. Which possibly means another suit. The result being neither the investor nor the public are ever free from suspicion of one another. How much better it would be to fix the rate of dividend once for all and allow the cost of the water to the consumer to be taken care of thereby.

In order to cover all business by federal regulation we would undoubtedly have to amend the federal constitution—an example.

The power of Congress over business is given in the following words: "To regulate commerce with foreign nations, and among the several states, and with the Indian tribes." The word commerce means an exchange of commodities but has been given a broad interpretation by our courts so as to include traffic and intercourse. By this power congress also regulates navigation as being necessary to its regulation of commerce.

The supreme court however, without exception, has held that insurance is not commerce, but a simple contract entered into for a consideration, therefore beyond the power of congress to regulate.

Fire Insurance is possibly the best business with which to illustrate the need of federal regulation by the plan submitted.

Every agent who represents more than one company is a medium through which the companies are enabled to avoid cut-throat competition, for he charges the assured the same rate regardless of which company he gives the business. Then by co-operation with the other agents doing business in his community he agrees to charge only such rates as are promulgated by a central office covering usually a half dozen counties. This it will be observed gives the insurance companies a franchise to regulate the price of insurance without cut-throat competition, and at the same time places the assured at their mercy as to the amount of income they desire to make from his business. But cut-throat competition would only add to the burden of the assured and result in rank injustice to the small insurer, for example: There are over one hundred insurance companies doing business in the counties now rated by an office. Cut-throat competition would mean that we would have 100 men going around doing the same work one office is now doing, and it would mean that the large insurer would be given a lower rate on the same class of buildings than the small insurer in order to get and hold the business. The assured would never know when he would be getting a

square deal and the agent would never know when his business would be taken away from him, possibly below cost to the agent getting it, in order that he might put through another transaction upon which he expected to make a larger sum, thereby effecting rate discrimination.

I am persuaded that cut-throat competition would add enough expense to fire insurance to compel the companies to raise the rates of insurance and at the same time reduce the work of the agents to knavery. The remedy appears plain: We should permit the companies to make any just arrangement between themselves which allows them to reach the assured with their business in the most equitable, efficient and economical manner, but limit their dividends to a reasonable return on their investment. This would in time result in actual competition in prices, that is, as the life insurance companies term it, give dividends to the assured.

Tentative Plan of Re-Organization.

First compel every person possessing over \$10,000,000.00 of property to dispose of the excess.

Then in order to take the water out of our corporations and place them upon a sound basis the corporations should be compelled to issue new stock, based, as nearly as could be estimated, upon or slightly below the actual value of their tangible property.

This stock should be offered to the public through a system of open competitive subscription, prices subscribed being published from day to day, each subscriber to name a maximum price which he would pay, bids to be taken upon graduations of \$1.00 per share of stock above par value. The highest graduation to receive full subscription on a given date to be the sale price to all, regardless of whether they bid the exact figure or a figure higher, and in event of over subscription the first subscribers to be given the preference. No sale to be effected unless the stock went at or above par and all money derived from sale first to be used in paying off bonds and other debts, then balance to be distributed equally among old stockholders.

The corporations should be compelled to furnish full

details as to the value of their property before sale and of course sufficient time should be given for the readjustment of business between the adoption of the plan and the time set to compel compliance in order to allow the public to become acquainted with the value of the new stock and in order to avoid sacrifice of securities upon an uncertain or dull market. Five years could easily be granted, with right to secure an extension for a given period, set by law, by giving sufficient reason in Court.



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